Author: Prof. Abdolreza Shahrabi Farahani

The Owner of the Philosophy and Theory of Principles of Mechanic Time

The Owner of the Philosophy of Subjective Physics Sciences

Author's Senior Advisor: Prof. Seyed Vahab Mirsalehi

Philosophy of Kant and Nietzsche - Oriental Sciences and Philosophy

Author's Senior Advisor: Dr. Mohammad Reza Zamani Darmazari

Chief of the International Law Commission and Human Rights at UNESCO MIL APAC and WSSPS.UN

The (Subjective Physics Sciences, WSSPS) is a non-governmental organization in consultative status with the United Nations Economic and Social Council since [ECOSOC Special Consultative Status, Since 2023]

Global Risks in the Future

While the global financial system has undergone significant reforms since the 2008 crisis, there are still potential risks that could lead to future global financial crises:

a. Debt accumulation: The accumulation of high levels of public and private debt in many countries poses a risk to financial stability, especially if it becomes unsustainable or leads to a sudden loss of market confidence.

b. Asset price bubbles: The rapid rise in asset prices, such as housing or stock market bubbles, could lead to a destabilization of financial markets if they were to burst.

c. Geopolitical tensions: Political conflicts, trade disputes, or geopolitical tensions could disrupt global financial markets, affecting investor confidence and causing economic instability.

d. Cybersecurity threats: The increasing reliance on digital technologies and interconnected financial systems makes the global financial sector vulnerable to cyber-attacks, data breaches, or disruptions in critical infrastructure.

e. Climate-related risks: The impacts of climate change, such as extreme weather events, rising sea levels, and resource scarcity, pose significant risks to the global economy and financial system. These risks could lead to increased insurance claims, stranded assets, and disruptions in supply chains.

f. Technological disruptions: Rapid technological advancements, such as artificial intelligence, automation, or digital currencies, could disrupt traditional financial systems and create new risks if not effectively managed.

g. Regulatory and governance gaps: Weak regulation or inadequate supervision of financial markets and institutions could create vulnerabilities and allow for the accumulation of systemic risks.

It is crucial for policymakers, regulators, and financial institutions to remain vigilant and take proactive measures to mitigate these risks, enhance transparency and accountability, and strengthen the resilience of the global financial system to prevent future crises. Attributing the main cause of the global financial crisis solely to governments is a complex and debated topic. While government policies and actions certainly played a role in shaping the economic landscape leading up to the crisis, it is important to recognize that multiple factors and actors were involved.

Governments are responsible for establishing and enforcing regulations to ensure the stability and integrity of financial systems. Prior to the crisis, regulatory failures occurred at various levels:

a. Deregulation and lax oversight: Governments in some countries implemented policies that deregulated financial markets, allowing for increased risk-taking and reduced oversight. This created an environment where financial institutions could engage in practices that ultimately led to the crisis, such as the securitization of risky mortgage loans.

b. Inadequate risk assessment: Regulatory bodies and government agencies failed to accurately assess and address the risks associated with complex financial instruments, such as collateralized debt obligations (CDOs) and credit default swaps (CDS). This lack of understanding and oversight contributed to systemic vulnerabilities.

c. Moral hazard: Governments, through implicit or explicit guarantees, created a perception that certain financial institutions were "too big to fail." This perception encouraged excessive risk-taking by these institutions, as they believed they would be bailed out by governments in times of crisis.

Governments, through their central banks, have the responsibility of setting monetary policy, including interest rates. In the run-up to the crisis, central banks in some countries pursued accommodative monetary policies, keeping interest rates low for an extended period. This easy access to credit encouraged excessive borrowing, fueled the housing market bubble, and contributed to the build-up of unsustainable levels of debt.

Governments have a role in shaping housing policies, including regulations and incentives. In the United States, for example, government-sponsored enterprises, such as Fannie Mae and Freddie Mac, played a significant role in promoting homeownership by purchasing and guaranteeing mortgage loans. This, combined with policies aimed at increasing homeownership, contributed to the expansion of subprime mortgage lending and the subsequent housing market collapse.

Government fiscal policies can also influence economic stability. In some cases, expansionary fiscal policies, such as tax cuts or increased government spending, were implemented without adequate consideration of their long-term implications. These policies contributed to growing budget deficits and public debt, which added to the overall economic vulnerabilities. Governments play a crucial role in international coordination and cooperation on financial matters. Prior to the crisis, there were limitations in terms of global governance and coordination, which allowed for the propagation of risks across borders and amplified the impact of the crisis.

Moving forward, governments and regulatory bodies have implemented significant reforms and strengthened regulations to prevent a recurrence of a similar crisis. The lessons learned from the global financial crisis continue to shape financial regulations and policies, with a focus on enhancing transparency, improving risk assessment, and strengthening oversight to ensure the stability and resilience of the global financial system.

In some cases, governments actively supported or encouraged risky lending practices that contributed to the crisis. For example, in the United States, government policies aimed at expanding homeownership, such as the Community Reinvestment Act, pressured financial institutions to lend to low-income borrowers who may not have qualified under traditional lending standards. This led to the proliferation of subprime mortgages and the securitization of these risky loans.

Governments often play a significant role in the housing market through policies and interventions. In the lead-up to the crisis, governments in many countries, including the US, promoted homeownership as a social and economic goal. This led to policies that incentivized and subsidized homeownership, such as tax breaks and mortgage interest deductions. These interventions artificially boosted demand for housing and contributed to the housing market bubble.

Governments and regulatory bodies failed to adequately address systemic risks in the financial system. They did not implement effective measures to monitor and control the growth of complex financial instruments, such as derivatives, or to assess the interconnectedness and potential contagion effects of financial institutions. This lack of oversight and risk assessment allowed the buildup of vulnerabilities that eventually unraveled during the crisis.

During the crisis, governments intervened to stabilize the financial system and prevent the collapse of major financial institutions. Bailout measures, such as government-funded rescue packages and guarantees, were implemented to restore confidence and prevent a complete financial meltdown. However, these actions created a moral hazard, as financial institutions realized they could take excessive risks with the expectation of being bailed out by governments in times of crisis. This perception of implicit government support fueled further risk-taking and contributed to the "too big to fail" problem.

The global financial crisis highlighted the need for better international coordination and cooperation among governments and regulatory bodies. The crisis originated in the United States but quickly spread to other countries, highlighting the interconnectedness of the global financial system. The lack of effective international regulatory frameworks and coordination mechanisms allowed risks to propagate across borders and intensified the severity of the crisis.

In the aftermath of the crisis, governments and regulatory bodies worldwide implemented significant reforms aimed at preventing a similar crisis in the future. These reforms included the implementation of stricter capital requirements for financial institutions, the establishment of new regulatory bodies, such as the Financial Stability Board, and the enhancement of risk management practices. Governments also focused on improving transparency, increasing oversight of financial markets, and strengthening consumer protection measures.

The global financial crisis served as a wake-up call, prompting governments and regulators to reevaluate and strengthen their financial systems. The lessons learned from the crisis continue to shape policy and regulation, with the aim of preventing future crises and promoting financial stability.

The role of governments and policies in the emergence of risk leading up to the global financial crisis is multifaceted. While it is important to note that governments were not the sole cause of the crisis, their actions and policies played a significant role in creating an environment conducive to risk-taking and systemic vulnerabilities. Governments in several countries pursued policies of financial deregulation, aiming to promote innovation, competition, and economic growth. However, the relaxation of regulations and oversight created an environment where financial institutions could engage in risky practices with limited accountability. For example, the repeal of the Glass-Steagall Act in the United States in 1999 allowed

for the merging of commercial and investment banking activities, leading to increased risk-taking and concentration of power in the financial sector.

Governments, through their central banks, have the authority to set monetary policy and influence interest rates. In the years preceding the crisis, central banks in some countries pursued expansionary monetary policies, keeping interest rates low to stimulate economic growth. However, prolonged periods of low interest rates fueled excessive borrowing and speculative behavior, particularly in the housing market. This contributed to the formation of housing bubbles and the accumulation of unsustainable levels of debt.

Governments often play a role in shaping housing policies and providing incentives to promote homeownership. In the United States, for instance, policies aimed at increasing homeownership, such as affordable housing goals and government-sponsored enterprises like Fannie Mae and Freddie Mac, led to the expansion of subprime lending. These policies created an environment where risky mortgage lending practices thrived, contributing to the eventual collapse of the housing market.

Governments and regulatory bodies responsible for overseeing the financial system failed to accurately assess and address the risks associated with complex financial instruments. The lack of understanding and proper supervision of instruments like collateralized debt obligations (CDOs) and credit default swaps (CDS) allowed for the proliferation of these products without sufficient risk management measures. This lack of oversight and risk assessment created systemic vulnerabilities and amplified the impact of the crisis.

Governments, through their actions during the crisis, created a perception of moral hazard. Bailout measures and interventions to stabilize the financial system conveyed the message that certain institutions were "too big to fail" and would be rescued by

governments in times of crisis. This perception of implicit government support encouraged excessive risk-taking by financial institutions, as they believed they would be shielded from the consequences of their actions. This moral hazard contributed to the buildup of systemic risks and the fragility of the financial system.

The global financial crisis revealed shortcomings in international coordination and governance of the financial system. Governments and regulatory bodies across countries lacked effective mechanisms for cooperation and information sharing, allowing risks to propagate across borders. Insufficient international regulatory frameworks and coordination exacerbated the impact of the crisis, highlighting the need for better global governance in financial matters.

Governments played a role in promoting and facilitating the securitization of risky assets, particularly in the housing market. Securitization involves bundling loans, such as subprime mortgages, into tradable securities that can be sold to investors. Governments, through policies and regulations, encouraged the expansion of securitization, which increased the complexity and opacity of financial markets. This process contributed to the diffusion of risk throughout the financial system, as the underlying risks of the securitized assets were often poorly understood or mispriced.

Government-sponsored enterprises, such as Fannie Mae and Freddie Mac in the United States, played a significant role in the housing market and the emergence of risk. These entities were created by the government to promote liquidity and stability in the mortgage market. However, they also had implicit government backing, which allowed them to borrow at lower rates and take on excessive risks. The expansion of GSEs, combined with their involvement in the securitization of subprime mortgages, contributed to the amplification of risk in the financial system.

Governments and regulatory bodies set capital requirements for financial institutions to ensure their stability and ability to absorb

losses. Prior to the crisis, capital requirements were often deemed inadequate, allowing financial institutions to operate with insufficient capital buffers. This meant that when losses occurred, the impact was magnified, leading to the collapse or near-collapse of several major financial institutions.

Governments and regulatory bodies failed to promote transparency and ensure accurate risk assessment in the financial system. Rating agencies, which are crucial for assessing the creditworthiness of financial products, assigned high ratings to complex financial instruments that were built on risky underlying assets. These ratings, often based on flawed assumptions and inadequate analysis, misled investors and contributed to a false sense of security. Governments relied on these ratings in their risk assessments, exacerbating the systemic risk. Government policies and market pressures often incentivized short-term profit-seeking behavior by financial institutions. For example, compensation structures in the financial industry rewarded excessive risk-taking and short-term gains without adequate consideration of long-term consequences. This focus on short-term profits encouraged the pursuit of risky investments and the neglect of proper risk management practices.

Governments' macroeconomic policies, such as fiscal and monetary measures, can contribute to the emergence of risk. Large global imbalances, such as trade deficits and surpluses, were fueled by varying government policies across countries. For instance, countries with large trade surpluses, like China, had policies that encouraged export-led growth and accumulation of foreign exchange reserves. These imbalances created distortions in global capital flows and contributed to the buildup of risks in the global financial system.

The influence of powerful financial institutions on governments and regulatory bodies, often referred to as regulatory capture, compromised the effectiveness of financial regulations. The close relationship between policymakers and the financial industry led to lenient regulatory enforcement, weakened oversight, and inadequate

responses to emerging risks. This cozy relationship between the government and the financial sector undermined the stability of the financial system.

The United Nations (UN) and affiliated non-governmental organizations (NGOs) and civil society groups played a limited role in directly identifying and preventing the global financial crisis. However, they did contribute to the post-crisis response and the development of policies and initiatives aimed at preventing similar crises in the future. UN agencies, such as the United Nations Conference on Trade and Development (UNCTAD) and the International Lab our Organization (ILO), conducted research and analysis on various aspects of the global financial system. They examined issues such as financial regulation, systemic risks, and the impact of globalization on financial stability. While their research did not specifically predict the timing or magnitude of the crisis, it provided valuable insights into the structural weaknesses and risks present in the global financial system.

NGOs and civil society organizations affiliated with the UN played a role in advocating for more responsible and inclusive financial policies. They raised awareness about the risks associated with financial deregulation, predatory lending practices, and the need for greater transparency in the financial sector. These groups engaged in dialogue with governments, international institutions, and the private sector to promote policy changes and regulatory reforms that would mitigate risks and protect vulnerable populations.

In the aftermath of the crisis, the UN and affiliated organizations actively participated in international forums and task forces dedicated to addressing the causes and consequences of the crisis. For example, the UN established the Commission of Experts on Reforms of the International Monetary and Financial System, which produced a report with recommendations for reforming the global financial architecture. These initiatives aimed to strengthen international financial regulation, promote sustainable development,

and address issues of inequality and poverty exacerbated by the crisis.

The UN, through its Principles for Responsible Investment (PRI) initiative, has promoted responsible investment practices that take into account environmental, social, and governance (ESG) factors. The PRI encourages institutional investors to incorporate ESG considerations into their investment decisions, promoting long-term sustainability and reducing systemic risks. This approach seeks to address some of the underlying issues that contributed to the financial crisis, such as excessive short-termism and unsustainable business practices.

The UN and its agencies provide technical assistance and capacity-building support to governments, particularly those in developing countries, to strengthen their financial systems and regulatory frameworks. This assistance aims to enhance the ability of countries to identify and mitigate risks, improve financial governance, and develop policies that promote inclusive and sustainable economic growth. By strengthening the capacity of governments and regulatory bodies, the UN contributes to the prevention of financial crises at the national level.

The primary responsibility for financial regulation and oversight lies with national governments and international financial institutions. However, the UN and civil society organizations continue to play a critical role in advocating for reforms and policies that aim to create a more stable, inclusive, and sustainable global financial system.

The UN and affiliated organizations have been involved in discussions and initiatives aimed at strengthening the international financial architecture. They have called for reforms in international financial institutions, such as the International Monetary Fund (IMF) and the World Bank, to enhance their ability to prevent and respond to financial crises. These efforts include improving governance and representation, enhancing crisis prevention mechanisms, and

promoting the participation of developing countries in decision-making processes.

The UN and its agencies recognize that financial inclusion can contribute to poverty reduction and economic stability. They advocate for policies and initiatives that promote access to financial services for marginalized and vulnerable populations. By expanding financial inclusion, particularly in developing countries, the UN aims to reduce inequalities and enhance economic resilience, which can contribute to preventing financial crises at the grassroots level.

The UN and affiliated organizations have emphasized the need to address systemic risks in the financial system, including those related to climate change and environmental degradation. They promote sustainable finance practices that integrate environmental, social, and governance considerations into investment decisions. By encouraging responsible investment and sustainable business practices, they aim to reduce vulnerabilities and prevent crises associated with unsustainable economic activities.

The UN provides a platform for global coordination and cooperation on financial issues. It facilitates dialogue among governments, international organizations, civil society, and other stakeholders to exchange ideas, share best practices, and coordinate efforts to prevent financial crises. Through international conferences, working groups, and intergovernmental processes, the UN promotes collaboration and knowledge-sharing to strengthen financial stability and resilience. The UN and affiliated organizations advocate for greater transparency and accountability in the financial sector. They call for improved disclosure standards, corporate governance practices, and regulatory frameworks that promote transparency and prevent fraudulent activities. By enhancing transparency and accountability, they aim to reduce information asymmetries and improve risk assessment, which can contribute to the prevention of financial crises.

The UN provides capacity-building support and technical assistance to countries, particularly those with limited resources and institutional capacity, to strengthen their financial systems and regulatory frameworks. This assistance includes training programs, policy advice, and knowledge sharing to help countries identify and mitigate risks, develop effective regulatory frameworks, and enhance financial governance. By building the capacity of countries to manage risks and implement sound financial policies, the UN contributes to preventing financial crises at the national level.